UNITED STATES DEPARTMENT OF AGRICULTURE
AGRICULTURAL ADJUSTMENT ADMINISTRATION
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WHAT'S AHEAD OF THE A. A. A.?

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NO MATTER what happens, the fundamentals of the Agricultural Adjustment program are written in the Nation's agricultural policy for a long time to come.

There are many reasons why I believe this is true. I will mention only four of them.

1. The country's present mood does not encourage increased buying from abroad in order that we can expand sales abroad.
2. Farmers generally are coming to feel that it is stupid to waste soil resources in intensive production of larger crops than markets will take at fair prices. They favor farm practices that will conserve the soil if they can escape immediate economic disadvantages.
3. As long as capital and labor in nonagricultural industries regulate production and hold prices inelastic, farmers are not going to be their shock absorbers if they can help themselves.
4. Farmers believe adjustment programs pay.

FOREIGN TRADE

Our national mood does not promise early revival of foreign trade. No one in Washington these days can be blind to the trend. For example, the Senate was held up for 2 days while debating the Agricultural Adjustment Act amendments because one Senator was apprehensive over manganese imports, although his State has not produced a shirt-tail full of manganese ore in the last 5 years, and we produce normally far less than 10 percent of the manganese we consume. The farmers are as sensitive as their industrial contemporaries where imports are concerned.

Yet our farm plant in the United States was built on an export basis. Unless our export markets return, agriculture faces continued adjustment or chaos. If adjustment continues, as I believe it will, the Federal Government will be a party to it one way or another.

CONSERVATION OF SOIL

I believe the farmers are convinced that our national agricultural policy must move directly away from waste of our soil, and toward restoring its fertility for unborn generations. The adjustment contracts contain positive provisions for use of land in soil-building and erosion-preventing crops.

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The purpose of adjustment programs is to direct the use of retired acres into grass instead of cultivated crops. The emphasis throughout is on better farm practices which will maintain soil fertility.

The charge that the Government is paying farmers "not to produce" has been made from many quarters, ranging all the way from an eminent historian down to chain letters or postcards not wholly free from suspicion of partisan origin. The fact is that most of the 36 million acres released from intensive cultivation in 1934, and the somewhat smaller area released in 1935, were used to check erosion and build soil. Report after report submitted to us by agricultural colleges in all sections of the country establishes that fact.

INDUSTRY THE REAL REDUCER

Farmers have had industry for their example in planning their programs. Agriculture will never match or seek to equal what other groups have done and now do in the direction of controlled production.

Harper Sibley, president of the United States Chamber of Commerce, stated this clearly the other day when he said:

> I personally feel that we have not yet reached the point where we can find buyers for all the products we can grow under unlimited production. Industry has cut down its output 50 percent, and agriculture, too, must stay down until it can expand its markets.
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> To recommend that we go back to the old system of every farmer for himself, as some of the critics of the A. A. A. suggest, is foolish. When we have 1,200,000 individual producers, as we do in the case of corn, it is impossible to have a balanced, stabilized production under a voluntary, altruistic system. The necessary stability can be attained only through a contractual arrangement of some kind.

ADJUSTMENT PROGRAMS HAVE PAID

Millions of farmers are convinced that their programs under the Agricultural Adjustment Act have given them material and immediate aid, and that their increased buying has contributed materially to city business and employment. It is likely that the total farm income in 1935 will be 75 percent higher than that of 1932. I make no pretense or claim that agricultural adjustment should be credited with all of this gain. On the other hand, I do insist that no current figures can measure the future gains and benefits that are inherent in these programs.

To sum up: The idea of cooperation in production is deeply rooted in farm thinking today. It has survived a period of 2 years in which Congress was largely unaware of what was happening on the farms of the country. It has taken that long for the sentiment and thinking back on the farm to reflect itself in the halls of our National Legislature. The idea will survive the court processes that are ahead. The 3 million farmers who are cooperating directly in this adjustment program know what it is all about much better than their critics do.

A POLITICAL ISSUE?

Will the farm-adjustment programs become a political issue? I do not think so. Certain principles will establish themselves beyond the highwater mark of partisan debate. For years we followed one agricultural policy. It did not change as the political government changed. We forced land into production regardless of the need for it. We wasted it. There is no reason why, as the Nation works back to a safer basis, the new policy also cannot be beyond the scope of partisan feud. The resolutions adopted by the so-called "grass rooters" at Springfield, Ill., on June 11, were significant. After hours of oratory in which the Agricultural Adjustment Act was ripped up one side and down the other the convention resolutions carried this plank:

> * * * Any program for national security must inevitably start with agriculture. We hold that no economic advantage of agriculture thus far attained shall be surrendered.
>
> The farmer is, of right, entitled to a fair and proportionate part of the national income and to receive a parity price for the products of his farm in domestic markets. Recognizing these facts, we endorse the enactment of such legislation, approved by the farmers themselves, as will accomplish such purposes.

If the grass rooters or anyone else know the legerdemain by which economic gains thus far attained by agriculture can be held and fair exchange or parity prices secured, under the present economic system, unless farmers can control their output at the volume which markets will take at that price, they have not revealed it.

BASIS OF PROGRAM

The agricultural program rests on the principle that each important commodity should pay for its own security, and that the program as a whole should pay its own way. The processing tax is essentially identical with the equalization fee of the farm legislation which twice passed Congress and was vetoed in February 1927 and May 1928. Adjustment payments are additions to the income or price received by the cooperating producers. They tend to equalize the economic position of the man who cooperates with that of the man who doesn't. Lack of that equalizing factor has been the rock on which farm programs of the past have wrecked. These payments are made by appropriations from the Treasury general fund into which go the proceeds of processing taxes imposed under the act.

The processing tax is an excise tax. I believe there is strength in this provision for current revenues to meet current expenditures. I believe in letting a commodity pay its own way out in the open where the public, the farmer, and the processor can see it. The tax is simply an addition to the cost of raw material. The textile manufacturer, for example, buys his cotton at the open market price and in addition pays 4.2 cents a pound processing tax, which finds its way via the United States Treasury back to the cotton farmer as an addition to his price.

A great deal of bunk has been spoken and written about the processing tax on cotton. In fact the textile interests, when they say

they cannot pay the tax, say that they cannot pay the farmers 15 or 16 cents a pound, the approximate fair exchange value compared with pre-war purchasing power for cotton. The tax puts them at no disadvantage with foreign competitors. A Japanese manufacturer pays the tax if his goods are brought into the United States. The domestic manufacturer, on the other hand, has the tax refunded on goods which he exports.

MARKETING AGREEMENTS AND ORDERS

It might be well to diverge right here to consider the provisions in the pending amendments covering marketing agreements and orders.

Two millions farmers make their living by growing and selling milk and dairy products, fruits, vegetables, and miscellaneous crops.

Efforts have been made during the past 2 years to develop programs for these crops. They have been notably successful in some parts of the country; less so in others. The original Act providing for marketing agreements and licenses was incomplete and oversimplified. The result was continuous trouble in the courts.

A conscientious effort has now been made in both Houses of Congress to fashion a workable blueprint under the Constitution for these programs, by limiting them to certain enumerated commodities, by laying down definite rules of procedure to guide the Agricultural Adjustment Administration in developing them, and by spelling out specific powers that alone may be used by the Government.

Under these amendments I look for the gradual development of a constructive program for producers of whole milk for the big interstate markets and for such of the specified crops as lend themselves to this method of operation. None of these programs can be effectively carried forward unless the Act, as it is about to be amended, results in prompt and thorough-going enforcement in the courts.

The original Act authorized the licensing of every handler and processor of any agricultural commodity or its competing product in the United States and provided that the license might be suspended or revoked. The pending provisions are distinct limitations of the existing law. The main difference is that they set forth a precise procedure for the administrators to follow, in lieu of the broad grant of power contained in the original Act.

LEGAL STATUS OF THE PROCESSING TAX

Now to return to the processing taxes and adjustment programs. The public mind and the farmer mind are confused about their legal status. Several hundred suits to restrain collection have been filed. One circuit court of appeals, in the Hoosac Mills case, holding the tax unconstitutional, said: "The issue of whether under the Act it has been an unauthorized delegation by Congress of its legislative powers is decisive of the case before this Court."

That opinion was rendered on July 13, 1935. Just 10 days later, the Senate of the United States by an overwhelming vote of 64 to 15 passed broad amendments to the Agricultural Adjustment Act after 2 weeks of debate in which the effect of the Hoosac Mills opinion was

fully recognized. The amendments are now in conference. They are highly significant in connection with the legality of processing taxes.

In effect, Congress says by these amendments: "Two years ago we directed the Secretary of Agriculture to follow certain methods in administering taxes and voluntary agreements with farmers. Since then the question has been raised in many courts whether Congress, in the Agricultural Adjustment Act of May 12, 1933, properly delegated its undoubted power to impose excise taxes. We now have the opportunity to meet that question, and we do so in a manner which makes our intent unmistakably clear."

Out of the many changes in the existing Act contained in the pending amendments as they were shaped by Congress in the light of the Schechter and Hoosac Mills opinions, three stand as most important.

1. Congress directly legalizes and ratifies every rate of tax from the date of passage of the Act down to the day the amendments become law, as "fully to all intents and purposes as if each such tax had been made effective and the rate thereof fixed specifically by prior act of Congress."

2. Similarly, the making of rental and benefit payments and of agreements with producers prior to the date of the adoption of the amendments is fully legalized and ratified.

3. The rates of tax on the basic agricultural commodities are specifically fixed to December 31, 1937, by the direct act of Congress, with the proviso that if any modification thereof is held invalid, the rate fixed by Congress is restored and continued.

In this manner Congress meets the issue of delegation of its taxing power—the issue that has been uppermost in the minds of the lower courts. True, in the *Hoosac case*, the court raised the question as to whether Congress itself has the power to levy the tax. Well, Congress has used its taxing power since 1789 in a succession of tariff and other measures for the avowed purpose of affecting, protecting, subsidizing, controlling, and regulating production and price.

I do not know, of course, what the decision of the Supreme Court will be. But the mass movement of farm opinion has assumed a definite direction. For the past 18 years I have had opportunity to watch rather closely the forming of our national agricultural policy. I have never seen a time when the farmers were as much interested as they are today in the analogy of their program and the tariff. There is growing among them a deep conviction that if the tariff system is valid, our Constitution will not prove to be a permanent bar to the farm-adjustment program. I believe that in the long run their well-considered judgment will prevail.

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